Trends in the U.S. Retail and Food Service Industry

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THE RISE OF DOLLAR STORES IN FOOD RETAILING

The American food retail landscape includes many types of stores. Most towns have supermarkets, hypermarkets, independent food stores, convenience stores, specialty stores, and gas station stores devoted to selling food. However, another store type is now entering food retailing - dollar stores.

Small format value retailers, which include dollar stores, have been around for about fifty years. In the beginning, most of these stores had items priced at $1 or less, hence the category name. Even today, some dollar stores deal exclusively in $1 items or in items that rarely exceed $10. These stores are usually small, plainly decorated outlets. They are sometimes found in shopping malls but more typically in strip malls. By keeping their overhead low and stocking a limited assortment of goods, dollar stores are able to pass their savings on to their customers.

In the past, dollar stores concentrated on housewares, toys, apparel, and similar products. More and more, however, dollar stores are beginning to add food to their product mix. At the same time, other store formats are reacting to the success of the dollar stores.

The Typical Dollar Store Shopper

Recent research has discovered that there is no typical dollar store shopper. Dollar stores aid lower-income consumers by helping them to stretch their shopping budget with affordable products. But higher-income consumers like a bargain as well. Dollar stores fulfill the need of the consumer shopping for value, whether that is out of necessity or choice.

Retail Forward, Inc., a consulting firm specializing in retail and consumer products marketing, notes in a recent survey that over one-third (36 percent) of all U.S. households regularly shop in small format value retailers on a monthly basis.

The largest dollar store chain in the United States, Dollar General Corporation, told the *Wall Street Journal's* Ann Zimmerman that households with combined annual incomes of more than $50,000 are its fastest-growing market. The number of household in this income bracket that shopped at Dollar General grew 27 percent between 2001 and 2004. During the same time period, the number of households with incomes below $50,000 that shopped at Dollar General grew 14 percent.

Dollar Stores Success

The two biggest dollar store chains in the United States, Dollar General and Family Dollar, operate more than 10,000 stores nationwide.

Sandy Skrovan, a Vice President with Retail Forward, explains the success of the dollar store format "Dollar stores combine pricing power, efficient operations, and small stores to make the model work."

Food Products Enter the Picture

In the past, shoppers familiar with dollar stores could often find canned and packaged food in the stores. However, shoppers could not necessarily count on being able to find the same foods every time they were in the store, and fresh foods were not available.

Today, some dollar stores are starting to carry dairy and produce items. The *Wall Street Journal* reports that Dollar General sells fresh food such as milk, eggs, lunch meat and frozen shrimp. Shoppers coming to purchase fresh food tend to spend more per visit, about $13 per visit compare to an average of $8.49 per visit for non-food buyers.

In addition, some food manufacturers are beginning to develop product sizes geared specifically towards shoppers in dollar stores. These can be smaller or larger sizes, depending on the product and how it fits the needs of the dollar store shopper.

Having a product mix that includes food could make a dollar store eligible to participate in the food stamp program. The food stamp program, administered by the USDA's Food & Nutrition Service, enables low-income families to buy nutritious food with coupons and Electronic Benefits Transfer (EBT) cards. The *Wall Street Journal* points out that equity analysts studying Dollar General Stores feel the sales resulting from participation in the food stamp program could boost same-store sales growth.

What are the implications of the Dollar Store trend?

Food shoppers in America rarely look to only one type of store to suit all of their needs. Consumers have shown a willingness in the past to shop across all types of retailers, a practice which is sometimes referred to as "channel grazing."

Other food retailing formats are reacting to the dollar store trend. The Food Marketing Institute notes that the fastest growing feature in new food stores is a section devoted to low price/dollar-item selections. This feature was found in nearly 20 percent of new stores in 2004, up from 6 percent in 2002.

The Future of Dollar Stores

Many sources have mentioned the delight of consumers going into a dollar store with $20 and coming out with 20 items. But it will take more than just low prices to maintain interest in this store format.

Retail Forward expects that dollars stores will continue to add more food and household essentials to their product lines.

To continue attracting new shoppers, dollar stores will need to consider adding more national brands, if the costs can be kept down. Ms. Skrovan of Retail Forward explains: "Suppliers will need to pay more attention to this sector as a high growth distribution channel going forward." Ms. Skrovan concludes "Suppliers willing to work with the leading dollar store players to meet special packaging and pricing needs will find themselves in good stead."

For further information:

FAS will publish a more detailed report on dollar stores later in 2005.

The Web site for Retail Forward is http://www.retailforward.com.

The Web site for the Food Marketing Institute is http://www.fmi.org.

The Web site for the *Wall Street Journal* is http://online.wsj.com

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